

EXHIBIT 4DATE 1/9/13*The Big Sky Country*HB Presentation

MONTANA HOUSE OF REPRESENTATIVES

To: Members of the House Appropriations Committee
From: Representative Duane Ankney, Chairman
RE: Directions for subcommittee actions

A handwritten signature in black ink, appearing to read "Duane Ankney", written over the "From:" line.

The purpose of this memo is to establish guidelines for the appropriations subcommittees regarding the budget starting point, the adoption of revenue estimates and statewide present law components, as well as other operational issues. The guidelines require the adoption of specific items as part of the formal decision making process. Subcommittee staff will assist you with this process.

BASE AND STATEWIDE PRESENT LAW ADJUSTMENTS

The starting point for budget deliberations will be the FY 2012 base. This number represents actual expenditures of FY 2012, with one-time-only costs removed. Subcommittees will have to take action to adopt this starting point. As for the statewide present law components, each component will be examined as part of the subcommittee deliberation process. Those components are fixed costs, inflation/deflation, personal services, and vacancy savings.

Fixed Costs and Inflation/Deflation

Section A will examine the inflation/deflation factors and the fixed costs proposals during the early part of subcommittee work. Fixed costs fund the agency's share of costs to certain programs that provide services to all agencies. Inflation/deflation is a factor applied to selected expenditures, mainly utilities, to account for market changes. Section A will either validate the proposed changes or provide adjustments to the other subcommittees. Once Section A has completed this work, all other subcommittees will take the necessary steps to adopt the inflation/deflation factors and fixed costs changes.

Personal Services and Vacancy Savings

Adoption of personal services will be done within each subcommittee. Personal services adjustments represent fully funding of personal services for the agency, including longevity changes, career ladder progression, pay plan changes, funding of vacant positions, and the like. The adjustment also includes any annualization of pay raises endorsed by the executive in the spring and summer of 2012. Subcommittees will determine if the proposed adjustment is adequate or adopt a different amount based upon the examination of factors driving the adjustments. Those factors may include but are not limited to actual vacancy savings, alignment to market salaries, recent pay actions of the agency and the rationale behind them, turnover of positions, recruitment challenges, and retirement pressures. These factors will also be part of the legislature's discussion of the pay plan bill.

In order to begin to address this issue, we suggest that you read the Personal Services Report by Kris Wilkinson^[1] provided to the Legislative Finance Committee. This report provides an explanation about how pay is established and managed and identifies a number of issues with state government personal services, including:

- Specific position types are further away from market
- Specific pay bands are far from market and losing ground
- Some agencies are further away from the market
- Not all agencies provided increases in the 2013 biennium

Vacancy savings is set in the executive budget at the historical rate of 4%. Each subcommittee will likely take a number of factors into consideration when examining the rate, including the other personal services factors listed, in determining whether to apply a different rate.

REVENUE ESTIMATE

In order to effectively budget state resources, the subcommittees will need to adopt SJ2 and any subsequent changes as the revenue estimate for the 2013 Legislative Session. The estimates contained in the introduced resolution are the same estimates that were presented to the Revenue and Transportation Interim Committee by the Legislative Fiscal Division. If you wish to familiarize yourself with those estimates they can be reviewed at <http://leg.mt.gov/css/default.asp> under 2015 Biennium Budget Analysis.

OTHER ISSUES

There are a few other issues subcommittees need to consider as work is completed. These guidelines help with managing HB2 and the general fund status sheet. These guidelines are listed below.

Budget Proposals Requiring Legislation

The appropriation subcommittees will make no recommendations or adjustments to HB 2 until required legislation passes, except for K-12 present law inflation in the Office of Public Instruction.

Separate Legislation to Implement HB 2

HB 2 cannot include substantive law changes. The subcommittees may wish to include items in HB 2 that will require a substantive law change to implement. The HB 2 companion bill is the vehicle in which these changes can be placed. The appropriation subcommittees will determine any necessary substantive law changes and provide those items to the full House Appropriations Committee for further review and potential inclusion in the HB 2 companion bill. Among the potential changes that would be appropriate for inclusion in the HB 2 companion bill are the following:

- Provide statutory changes necessary to implement provisions of the budget
- Provide special instructions on use of or access to appropriations

^[1] Available at:

http://leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_Sept/Personal%20Services%20Rpt.pdf

- Require agency action

Establish Key Performance Measures

Joint appropriation subcommittees should select a few critical performance measures for each agency for monitoring purposes during the 2015 interim. State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. Reviewing this information and selecting related performance measures for further review may demonstrate to the legislature where budgetary adjustments are warranted and where the legislature might direct resources accordingly.

Potential Federal Funds Reductions

The subcommittees should request a plan from state agencies to operate the affected programs in the event federal funds are reduced through sequestration. In absence of congressional action, the federal Budget Control Act (BCA) sequester is scheduled to occur on January 2, 2013.

State Special Revenue Examination

Subcommittees should examine major state special revenue funds for adherence to dedicated revenue provisions and other issues as identified in the Budget Analysis. Potential adjustments to statute to address any identified issues can be rolled into the companion bill to HB2 or addressed in a subcommittee bill. Adjustments to appropriations of the funds can be made via HB 2.

Coordination between HB 2 & HB 5

The Long Range Planning Subcommittee should notify the appropriate joint appropriations subcommittee of potential future operational and maintenance costs resulting from significant capital investments and request that those subcommittees examine the impacts in a joint hearing.

Information Technology Critical Systems – HB 10

The Long Range Planning Subcommittee should meet jointly with the appropriate subcommittees to discuss issues related to IT systems deemed critical by the agencies. The focus of this discussion is the potential operational and maintenance costs of significant IT projects.

We have a lot of work ahead of us. We have been assured that the subcommittee staff is ready to help us implement these guidelines and do so as efficiently as possible. If you have any concerns please do not hesitate to contact either one of us.